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No. 08-1051

In the Supreme Court of the United States

INTERNATIONAL GAME TECHNOLOGY
AND IGT,

Petitioners,

v.

ARISTOCRAT TECHNOLOGIES AUSTRALIA PTY LIMITED
AND ARISTOCRAT TECHNOLOGIES, INC.,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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REPLY TO BRIEF IN OPPOSITION

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Respondents offer no valid reason why this Court should not review the question presented which, as amici attest, is critically important to prevent the improper enforcement of invalid patents.

1. None of respondents' attempts to devise a supposed "vehicle" defect has any merit.

First, the decision below does not rest "on alternative grounds." Opp. 13. The Federal Circuit held that failure to revive an abandoned patent application under the proper statutory standard cannot be a defense to an infringement claim. It also found "unpersuasive" petitioners' alternative argument based on the APA. Pet. App. 13a. The Federal Circuit did not rule that the APA barred any judicial determination of petitioners' invalidity defense but only that the APA provides no additional support for the district court's invalidation of the patent claims at issue. Petitioners did not seek judicial review of agency action under the APA. Hence, if their defense is cognizable, and if it has merit (an issue on which the district court ruled in petitioners' favor but the court of appeals did not reach), petitioners are entitled to summary judgment of invalidity on respondents' infringement claims, no matter what the Federal Circuit said about their alternative APA argument.

Second, the Federal Circuit's decision is ripe for review. Respondents (at 15-16) rely on the fact that review is sought from an "interlocutory" summary judgment decision. But 28 U.S.C. § 1254(1) authorizes a grant of certiorari "before or after rendition of judgment or decree" by a federal court of appeals. "The presence of the word 'before' in § 1254(1) signifies that a party aggrieved by such an interlocutory order may seek to invoke certiorari review of that order 'before' entry of a final judgment." EUGENE

GRESSMAN ET AL., SUPREME COURT PRACTICE 81 (9th ed. 2007). Thus, the Court has "express power to review such interlocutory judgments" (*id.* at 81-82), and the Court exercises that power where an issue is "fundamental to the further conduct of the case." *Land* v. *Dollar*, 330 U.S. 731, 734 n.2 (1947). Here, the issue presented is a pure legal issue that is plainly "fundamental to the further conduct of the case" because its resolution determines whether IGT may assert a dispositive defense. Indeed, this Court frequently grants petitions for certiorari from decisions reversing summary judgment, including in such patent cases as *Quanta Computer, Inc.* v. *LG Elec., Inc.*, 128 S. Ct. 2109, 2114-2115 (2008), and *KSR Int'l Co.* v. *Teleflex Inc.*, 550 U.S. 398, 412-413 (2007). These (and many other) certiorari grants from federal court interlocutory orders refute respondents' contention (at 15-16) that the petition should be rejected merely because other defenses are pending in the district court. See *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Sav. Bank*, 527 U.S. 627, 633-334 (1999) (granting certiorari petition to determine availability of sovereign immunity defense in patent infringement suit before remanding for further proceedings).

Third, the question presented is not "broader" than the issues raised by petitioners below. Opp. 16-17. Respondents incorrectly assert (at 16) that "IGT did not argue that 'improper revival' is an available defense *independent* of Section 282." As respondents admit, the Federal Circuit reached that very question, stating that "Section 282 is not the only source of the defenses in the Patent Act" and that "a provision of the Patent Act not falling within the literal scope of section 282 may nevertheless provide a defense of noninfringement or invalidity." Opp. 10-11

(quoting Pet. App. 12a). The Federal Circuit addressed that point because petitioners raised it in their court of appeals brief. See IGT's C.A. Br. 19-20. Moreover, even if petitioners had not raised the issue below, the fact that the court of appeals addressed it makes it subject to this Court's review. See *Lebron* v. *National R.R. Passenger Corp.*, 513 U.S. 374, 379 (1995) ("even if this were a claim not raised by petitioner below, we would ordinarily feel free to address it, since it was addressed by the court below").

Finally, respondents incorrectly argue (at 18) that the petition should be denied because "additional alternative grounds not reached by the Federal Circuit" can sustain the decision below. Petitioners then launch into a substantive argument as to why § 41(a)(7) of the Patent Act supposedly trumps the "unavoidable" delay mandates of §§ 371(d) and 133—an argument rejected by the district court and never reached by the Federal Circuit. If this Court reverses the Federal Circuit's "no defense" holding, the Federal Circuit will then have to address the merits of that defense. If the possibility of such further proceedings prevented certiorari review of the "no defense" holding, this Court would never grant certiorari on reversals of summary judgment where alternative grounds remain pending in the district court. Yet, as described *supra* p. 2, the Court frequently does so.

Moreover, respondents' contention that § 41(a)(7) trumps the "unavoidable" delay mandates in §§ 371(d) and 133 is baseless, as the district court held (Pet. App. 37a-39a). Both the text and enactment date of § 41(a)(7) refute respondents' argument. Section 41 is purely a fee statute, which states in full:

> *Revival fees.* On filing each petition for the revival of an unintentionally abandoned application for a patent, for the unintentionally delayed payment of the fee for issuing each patent, or for an unintentionally delayed response by the patent owner in any reexamination proceeding, $1,210, unless the petition is filed under section 133 or 151 of this title, in which case the fee shall be $110."

35 U.S.C. § 41(a)(7). Thus, by its plain terms, Section 41(a)(7) merely specifies that an applicant must pay one of two fees when petitioning for the revival of a patent application abandoned due to "unintentional" delay. The higher fee applies unless the revival petition is filed under Section 133 or 151, the only two provisions that, prior to the enactment of Section 41(a)(7), specified an "unavoidable" delay standard for revivals of abandoned applications.

Furthermore, Congress enacted the § 371(d) "unavoidable" delay provision in 1984—two years *after* it enacted § 41(a)(7). See Patent Law Amendment Act, Pub. L. 98-622 § 402, 98 Stat. 3383 (Nov. 8, 1984). Respondents' argument, if accepted, would render that later enactment meaningless.

2. Respondents are wrong to deny that statutorily proper revival of an abandoned application is a "condition for patentability" under the Patent Act and thus a defense under § 282(2). They argue (at 26-28), based on *Graham v. John Deere*, 383 U.S. 1 (1966), that novelty, utility, and nonobviousness are the *only* conditions for patentability. Yet, they admit (at 28) that the Federal Circuit has recognized that both "patentable subject matter" and payment of prescribed fees are other such conditions.

Respondents (at 29) try to draw a sharp line between conditions and requirements for patentability. But their first block quote from *Graham* uses the terms interchangeably, first referring to the "conditions prescribed by the laws of the United States" and then to "the two requirements of novelty and utility." Opp. 27, quoting *Graham*, 383 U.S. at 3.

Respondents' contention that only the conditions specified in §§ 101-103 provide an invalidity defense under § 282(2) does not comport with the language of § 282, which expressly provides an invalidity defense "on any ground specified in part II of this title as a condition for patentability." If respondents were right, it presumably would say "specified in sections 101-103." Instead, it broadly contemplates conditions of patentability in other provisions of part II of title 35, including those set forth in § 33.

Giving § 282(2) that plain meaning would not make § 282(3) superfluous, as respondents argue (at 29). Subsection (3) authorizes an invalidity defense for failure to comply with "any requirement of sections 112 or 251." Section 251 applies only to previously-issued patents and thus does *not* prescribe conditions for patentability. And some of the provisions in § 112 are formal drafting requirements, not conditions for patentability, for example the provision stating that "[a] claim in multiple dependent form shall contain a reference, in the alternative only, to more than one claim previously set forth and then specify a further limitation of the subject matter claimed."

3. Respondents are also wrong to deny that the catch-all provision of § 282(4) authorizes a defense of "improper revival." They argue (at 30) that the phrase "shall be regarded as abandonment of the ap-

plication" in § 371(d) is not enough to make failure to show unavoidability an invalidity defense. But they omit the immediately following clause beginning with "unless." Read together, an application that fails to comply with the prescribed deadline "shall" be deemed abandoned "unless it be shown" that "such failure to comply was unavoidable." That language would be meaningless if one could not defend against infringement claims on the ground that an abandoned application was revived without the required showing. In other words, § 282(4) authorizes a defense so long as Congress indicated that parties must comply or face the consequences, as in §§ 371(d) and 133.

Respondents list three Patent Act provisions (§§ 185, 272, and 273) that they say clearly indicate a congressional intent to make a defense. But each uses very different language. Section 185 uses the phrase "shall be invalid"; § 272 uses the phrase "shall not constitute infringement"; and § 273 uses the phrase "defense to infringement." Obviously, then, there are no magic words that indicate whether Congress made a failure to comply with Patent Act provisions a defense. By providing that applications "shall" be abandoned "unless" the applicant shows the abandonment was unavoidable in §§ 371(d) and 133, Congress signified that failure to make that showing constitutes a defense available to infringement defendants. Moreover, if § 282(4) were construed to cover only provisions that expressly authorize a defense, it would be superfluous because those provisions would suffice to establish the defense.

Respondents assert (at 32) that Congress did not intend that the "failure of the PTO to comply with statutory requirements for revival of a patent" would

be a defense to patent infringement. That is a remarkable proposition. It gives the PTO broad license to disregard statutory commands and leaves future infringement defendants no viable means of defending themselves against enforcement of a patent that never should have issued.

4. Respondents deny that §§ 371(d) and 133 independently authorize a defense based on statutorily improper revival of an abandoned patent application. But § 282 says "The following shall be defenses"—not "the only defenses" or even "the defenses." And § 101 provides that all patents are "subject to the conditions and requirements of this title," one of which is revival of abandoned applications under the statutory standard.

Moreover, respondents admit (at 33) that the Federal Circuit has recognized that Patent Act provisions other than § 282 provide invalidity defenses. In particular, in *Quantum*, the Federal Circuit recognized an invalidity defense based on § 305, which bars the broadening of claims during reexamination, even though § 305 contains no language expressly authorizing a defense. If failure to enforce the § 305 mandate is a defense, as *Quantum* holds, there is no reason why failure to enforce the §§ 371(d) and 133 mandates would not be a defense. Respondents (*ibid.*) attempt to distinguish the § 305 defense by contending that §§ 371(d) and 133 address only "ancillary procedural matter." But if Congress deemed application revival standards to be merely ancillary and procedural, it would have left their formulation to the PTO, not inscribed them in the Patent Act itself.

Apparently aware that their distinction from *Quantum* fails, respondents next argue that the Fed-

eral Circuit lacked authority to recognize § 305 as an invalidity defense in *Quantum* and that courts have no authority to recognize an invalidity defense for failure to comply with statutory revival mandates. But that would give the PTO free rein to disregard the "shall-unless" mandates in §§ 371(d) and 133. The issue here is not "policy considerations," as respondents assert (at 34), but rather the plain meaning and purpose of the Patent Act.

5. Respondents are unable to rebut the petition's showing that the ruling below will allow holders of invalid patents to suppress innovation by depriving accused infringers of a viable defense.

Respondents contend (at 35) that the issue presented is not "frequently recurring." But reported opinions in at least four recent cases turn on the availability of an improper revival defense. Respondents (at 36 n.5) attempt to distinguish two of those cases as resting on whether the patent holder satisfied the "unintentional" standard, but under the holding below even that defense would have been barred. Furthermore, this issue arises in many cases that do not result in a reported opinion. For example, amici—six of the largest technology companies in the U.S.—state that they "have been the targets of infringement litigation by parties who take advantage of the PTO's practice [of] reviving abandoned applications merely upon a declaration of 'unintentional' delay. Amicus Br. 17.

Amici also raise from experience the substantial problem that non-practicing entities pose to innovative companies.

> Under the decision below, an applicant can file an application, abandon it, and then lie

> in wait to determine whether an industry will later develop valuable products that fall within the application's claims. If no such products emerge, then the applicant has saved the costs of patent prosecution. If valuable products do emerge, then the applicant can revive the application and file suit against companies in that industry immediately following issuance.

Amicus Br. 15. The decision below, which bars the targets of such suits from defending themselves based on §§ 371(d) and 133, simply encourages such harmful conduct.

According to respondents (at 35), the PTO has revived tens of thousands of abandoned patent applications based on a mere assertion (not a showing) of "unintentional" delay. Many of these revivals, in particular those revived under statutory provisions authorizing revival for "unintentional" delay (§§ 122(b)(2)(B)(iii) and 111(a)(4)), were proper, and many others resulted in patents of too little value to enforce. But that still leaves many patents that never should have issued in light of the Patent Act's revival standards. Indeed, a "cottage industry has emerged" of firms that sue on patents "that never should have been issued in the first place." Doug Lichtman & Mark A. Lemley, *Rethinking Patent Law's Presumption of Validity*, 60 Stan. L. Rev. 45, 71 (2007). Should the holders of these statutorily invalid patents be permitted to enforce them against innovative competitors? Should accused infringers be deprived of a defense in the face of such enforcement? Should the PTO continue to issue patents that do not comply with substantive statutory requirements? These are the important issues raised by the

petition, issues going to the very heart of the patent enterprise.

Respondents (at 37-38) attempt to belittle applicant incentives to abandon applications, as described in the Amicus Brief. Yet in *Lawman Armor Corp.* v. *Simon*, 2005 WL 1176973, at *6 (E.D. Mich. 2005), the court found that the patent holder had intentionally abandoned his patent and therefore that the patent was invalid for having been improperly revived. Such intentional abandonments (which amici report are already a problem) would be expected to increase if invalidity defenses are sharply curtailed pursuant to the ruling below.

Respondents (at 37-38) argue against any need for an improper revival defense because the PTO is a sufficient watchdog and infringement defendants can claim inequitable conduct. But as the district court explained (Pet. App. 32a-37a), the PTO's governing regulation directly conflicts with the statutory mandates in §§ 371(d) and 133 by authorizing the revival of *any* abandoned application based on a mere assertion of unintentional delay. The PTO has thereby shown itself an unreliable watchdog.

That should be no surprise given the agency's 750,000 application backlog. See Pet. 20. Several hundred thousand patent applications are filed every year, requiring analysis of voluminous documentation to which examiners are able to devote only 16-17 hours per application, resulting in the issuance of too many "bad patents." Lichtman & Lemley, *supra*, at 53. "[B]ad patents are a tax on legitimate business activity, including the legitimate use of patents that were fairly earned." *Id.* at 71.

In addition, the PTO garners substantial fees by not adhering to the statutory standards. The PTO charges over $1000 less to revive an abandoned application under the "unavoidable" standard than under the "unintentional" standard. Compare 37 C.F.R. § 1.17(*l*) with 37 C.F.R. § 1.17(m). And allowing revival based on "unintentional" delay results in many more revival petitions than if "unavoidable" delay had to be shown as the Act provides. More petitions and higher fees may give the PTO a substantial incentive to disregard the proper statutory standard.

As for inequitable conduct, the already severe burden (requiring clear and convincing evidence of a material intent to deceive the PTO[1]) is even steeper when the party asserting such a defense was not involved in the PTO proceeding but is rather a third-party infringement defendant (often years after the PTO proceeding ended). See Amicus Br. 17. Because applications are generally kept confidential for at least 18 months after filing (see 35 U.S.C. § 122(b)), the PTO proceeding is largely "a confidential conversation between applicant and examiner." Lichtman & Lemley, *supra*, at 47. "Adversaries are not welcome in the process." *Id.* at 54-55. Moreover, competitors cannot possibly monitor pending applications (some 100,000 patents issue every year in the information technology sector alone), and future competitors may "not even exist at the time of patent review, let alone realize the need to fight the application or have the resources to do so." *Id.* at 55.

In short, the only viable way for competitors to prevent enforcement of a statutorily invalid patent is

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[1] See *Kingsdown Med. Consultants Ltd.* v. *Hollister Inc.*, 863 F.2d 867, 872 (Fed. Cir. 1988) (en banc).

to assert an invalidity defense in the infringement proceeding. The ruling below removes a critical invalidity defense and thereby violates the Patent Act and weakens Congress's intent to protect and foster innovation.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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